

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Township of Keeler</u>	County Van Buren
Audit Date March 31, 2006	Opinion Date July 12, 2006	Date Accountant Report Submitted To State: August 7, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |                                                                     |                                                                                                                                                                                                                                                                                                                                     |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.                                                                                                                                                                                                                             |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).                                                                                                                                                                                                      |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).                                                                                                                                                                                                                |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.                                                                                                                                             |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])                                                                                                                                               |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.                                                                                                                                                                                                                     |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).                                                                                                                                                                                                         |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).                                                                                                                                                                                                                                |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address 511 Renaissance Drive, Suite 120	City St. Joseph	State MI	ZIP 49085
Accountant Signature 			

# **Township of Keeler, Michigan Van Buren County**

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**Financial Report  
with Supplemental Information  
March 31, 2006**

# Township of Keeler

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## Independent Auditor's Report

To the Members of the Township Board  
Township of Keeler, Michigan

We have audited the accompanying financial statements of the governmental activities, the General Fund, and the Small Cities Fund of the Township of Keeler, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Township of Keeler, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the General Fund, and the Small Cities Fund of the Township of Keeler, Michigan as of March 31, 2006 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplemental information are not a required part of the basic financial statements, but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

July 12, 2006

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# **Township of Keeler**

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## **Management's Discussion and Analysis**

Our discussion and analysis of the Township of Keeler, Michigan's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2006. Please read it in conjunction with the Township's financial statements.

### **Financial Highlights**

As discussed in further detail in the management's discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2006:

- The Township's total net assets decreased by approximately \$48,000, even with an increase in state-shared revenue of approximately \$2,000. We anticipated a reduction in the range of 9 percent to 15 percent from previous years when preparing next year's budget.
- Township funds are mainly derived from state-shared revenue and property tax collections. Undesignated General Fund fund balance increased by approximately \$154,000, mainly due to decreased road improvement expenditures.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

# Township of Keeler

## Management's Discussion and Analysis (Continued)

### The Township as a Whole

The following table shows, in a comparative, condensed format, the net assets as of March 31, 2006 and 2005:

	Governmental Activities	
	2006	2005
<b>Assets</b>		
Current assets	\$ 906,702	\$ 857,582
Noncurrent assets	<u>8,747,370</u>	<u>9,082,638</u>
Total assets	9,654,072	9,940,220
<b>Liabilities</b>		
Current liabilities	349,711	74,674
Long-term liabilities	<u>3,589,250</u>	<u>4,102,000</u>
Total liabilities	<u>3,938,961</u>	<u>4,176,674</u>
<b>Net Assets</b>		
Invested in capital assets	209,790	222,606
Restricted	3,577,094	3,779,298
Unrestricted	<u>1,928,227</u>	<u>1,761,642</u>
Total net assets	<u><u>\$ 5,715,111</u></u>	<u><u>\$ 5,763,546</u></u>

Governmental net assets decreased by approximately \$48,000 during the fiscal year ended March 31, 2006. The Township's overall financial health remains strong. The Township has been able to pursue projects as planned and budgeted.

# Township of Keeler

## Management's Discussion and Analysis (Continued)

The following table shows, in a comparative, condensed format, the changes of the net assets during the years ended March 31, 2006 and 2005:

	Governmental Activities	
	2006	2005
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 54,921	\$ 45,906
Capital grants and contributions	188,522	266,007
General revenue:		
Property taxes	276,373	292,006
State-shared revenue	176,184	174,497
Unrestricted investment earnings	17,269	5,746
Miscellaneous	126,320	52,984
Total revenue	839,589	837,146
<b>Program Expenses</b>		
General government	238,685	189,541
Public safety	212,909	165,270
Interest on long-term debt	151,799	172,373
Other	284,631	261,458
Total program expenses	888,024	788,642
<b>Change in Net Assets</b>	<b>\$ (48,435)</b>	<b>\$ 48,504</b>

### Governmental Activities

- The Township spent \$96,008 on street improvement projects including seal coating, adding gravel to existing gravel roads, and spraying for dust control.
- The Township spent \$19,096 on capital assets, the majority of which was public safety equipment. The Township purchased two Dell computers and various Fire Department safety clothing and tools.

# **Township of Keeler**

## **Management's Discussion and Analysis (Continued)**

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### **General Fund Budgetary Highlights**

The General Fund pays for most of the Township's governmental services. The primary services provided include police and fire services, administrative services, and various public services.

As shown in the required supplemental information, the Township originally budgeted operational expenditures of \$616,908. During the course of the year, the Township amended the budget and budgeted expenditures of \$698,346. Actual operating results ended up as a surplus of \$24,716. Budget to actual differences were favorable in most activities.

### **Capital Asset and Debt Administration**

The Township continued making payments on general obligation bonds incurred to construct a sanitary sewer system.

### **Economic Factors and Next Year's Budgets and Rates**

The Township's budget for the next fiscal year reflects another decrease in state-shared revenue. Current economic conditions in the state of Michigan have put statutory revenue sharing at risk of being reduced. The board has adopted a conservative budget that retains current fund balance, but also facilitates community priorities and quality services.

The Township plans on implementing a first responder program for the fire department. With the purchase of a first responder vehicle and training for the existing fireman, the program will allow for a first responder to arrive at the scene before any ambulance or fire truck has time to reach the site. The Township has set aside approximately \$20,000 in the General Fund budget for expenditures related to this new program.

The Township has also planned a number of other projects including seal coating of county roads within the Township using both Township and County funds.

### **Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Township clerk.



# Township of Keeler

## Statement of Net Assets March 31, 2006

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents (Note 4)	\$ 818,040
Delinquent taxes receivable	88,662
Special assessments receivable	3,438,276
Capital assets - Net (Note 5)	209,790
Investment in joint venture (Note 9)	<u>5,099,304</u>
Total assets	9,654,072
<b>Liabilities</b>	
Accounts payable	33,307
Due to other governmental units	60,029
Long-term debt (Note 7):	
Due within one year	256,375
Due in more than one year	<u>3,589,250</u>
Total liabilities	<u>3,938,961</u>
<b>Net Assets</b>	
Invested in capital assets - Net of related debt	209,790
Restricted for joint venture debt repayment	3,438,276
Restricted for public purposes	138,818
Unrestricted	<u>1,928,227</u>
Total net assets	<u><b>\$ 5,715,111</b></u>

# Township of Keeler

## Statement of Activities Year Ended March 31, 2006

					Net (Expense) Revenue and Changes in Net Assets
		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Functions/Programs</b>					
Primary government:					
General government	\$ 238,685	\$ 54,921	\$ -	\$ -	\$ (183,764)
Public safety	212,909	-	-	-	(212,909)
Public works	170,506	-	-	-	(170,506)
Investment in joint venture	102,800	-	-	-	(102,800)
Cemetery	11,325	-	-	-	(11,325)
Interest on long-term debt	151,799	-	-	-	(151,799)
Total governmental activities	<u>\$ 888,024</u>	<u>\$ 54,921</u>	<u>\$ -</u>	<u>\$ -</u>	(833,103)
General revenues:					
Property taxes					276,373
State-shared revenues					176,184
Unrestricted interest income					17,269
Interest on special assessments					188,522
Miscellaneous					126,320
Total general revenues					<u>784,668</u>
<b>Change in Net Assets</b>					(48,435)
<b>Net Assets - Beginning of year</b>					<u>5,763,546</u>
<b>Net Assets - End of year</b>					<u><u>\$ 5,715,111</u></u>

# Township of Keeler

## Governmental Funds Balance Sheet March 31, 2006

	General Fund	Small Cities Fund	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents (Note 4)	\$ 740,707	\$ 77,333	\$ 818,040
Delinquent taxes receivable	88,662	-	88,662
Special assessment receivable	3,438,276	-	3,438,276
Total assets	<u>\$ 4,267,645</u>	<u>\$ 77,333</u>	<u>\$ 4,344,978</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 33,307	\$ -	\$ 33,307
Due to other governmental units	60,029	-	60,029
Deferred revenue (Note 6)	3,438,276	-	3,438,276
Total liabilities	3,531,612	-	3,531,612
<b>Fund Balances</b>			
Reserved for:			
Cemetery maintenance	15,127	-	15,127
Public access improvements	29,126	-	29,126
Weed control	12,502	-	12,502
Housing grants	-	77,333	77,333
Police protection	4,730	-	4,730
Unreserved:			
Designated for fire equipment and road improvements	482,171	-	482,171
Undesignated	192,377	-	192,377
Total fund balances	<u>736,033</u>	<u>77,333</u>	<u>813,366</u>
Total liabilities and fund balances	<u>\$ 4,267,645</u>	<u>\$ 77,333</u>	<u>\$ 4,344,978</u>

# Township of Keeler

## Governmental Funds

### Statement of Revenue, Expenditures, and Changes in Fund Balances

### Year Ended March 31, 2006

	General Fund	Small Cities Fund	Total Governmental Funds
<b>Revenue</b>			
Taxes	\$ 276,373	\$ -	\$ 276,373
Special assessments	408,174	-	408,174
Licenses and permits	54,921	-	54,921
State sources	176,184	-	176,184
Interest	17,269	-	17,269
Other	120,578	5,742	126,320
	<hr/>	<hr/>	<hr/>
Total revenue	1,053,499	5,742	1,059,241
<b>Expenditures</b>			
General government	234,506	-	234,506
Public safety	204,272	-	204,272
Debt service	408,174	-	408,174
Other	181,831	-	181,831
	<hr/>	<hr/>	<hr/>
Total expenditures	1,028,783	-	1,028,783
	<hr/>	<hr/>	<hr/>
<b>Net Change in Fund Balances</b>	24,716	5,742	30,458
	<hr/>	<hr/>	<hr/>
<b>Fund Balances - April 1, 2005</b>	711,317	71,591	782,908
	<hr/>	<hr/>	<hr/>
<b>Fund Balances - March 31, 2006</b>	<u><u>\$ 736,033</u></u>	<u><u>\$ 77,333</u></u>	<u><u>\$ 813,366</u></u>

# **Township of Keeler**

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## **Notes to Financial Statements March 31, 2006**

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Township of Keeler, Michigan (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Keeler, Michigan:

#### **Reporting Entity**

The Township of Keeler, Michigan is governed by an elected five-member board. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. The Township has no component units.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Township has no business-type activities.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: property taxes, state-shared revenue, and interest associated with the current fiscal period. Conversely, special assessments will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

# Township of Keeler

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## Notes to Financial Statements March 31, 2006

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The Township reports the following major governmental fund:

**General Fund** - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the Township reports the following fund type:

**Special Revenue Fund - Small Cities Fund** - The Special Revenue Fund is used to account for the proceeds of earmarked revenues or financing activities requiring separate accounting because of legal or regulatory provisions.

#### **Property Tax Revenue**

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2005 ad valorem tax is levied and collectible on December 1, 2005 and is recognized as revenue in the year ended March 31, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the Township totaled approximately \$98.0 million, on which ad valorem taxes levied consisted of 0.7294 mills for operating purposes, 0.9073 mills for roads, and 0.6804 mills for police. An additional 0.2802 mills was levied for street lights on a taxable valuation of approximately \$50.3 million. This resulted in approximately \$71,500 for operating, \$88,900 for roads, \$66,700 for police, and \$14,000 for street lights. These amounts are recognized in the General Fund financial statements as tax revenue.

The related expenditures for roads totaled \$96,008, the expenditures for police totaled \$49,815, and the expenditures for street lights totaled \$14,227. All amounts collected in previous years were expended in those years.

# Township of Keeler

## Notes to Financial Statements March 31, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Assets, Liabilities, and Net Assets or Equity

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." All property tax receivables are shown as net of allowance for uncollectible amounts.

**Capital Assets** - Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	15 years
Buildings and building improvements	25-50 years
Vehicles	15-20 years
Equipment	5-10 years

**Long-term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Note 2 - Reconciliation of Government-wide and Fund Financial Statements**

Total fund balance and the net change in fund balance of the Township's governmental funds differ from net assets and change in net assets reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the economic focus of the statement of the governmental funds balance sheet and statement of revenue, expenditures, and changes in fund balances. The following is a reconciliation of fund balances to net assets and the net change in fund balances to the net change in net assets:

**Total Fund Balances - Modified Accrual Basis** \$ 813,366

Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources and are not reported in the funds 209,790

Investment in joint venture is not a financial resource and not reported in the funds 5,099,304

Special assessments receivable are expected to be collected over several years and are not available to pay for current year expenditures 3,438,276

Long-term liabilities are not due and payable in the current period and are not reported in the funds (3,845,625)

**Total Net Assets - Full Accrual Basis** \$ 5,715,111

**Net Change in Fund Balances - Modified Accrual Basis** \$ 30,458

Amounts reported in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Current year capital additions 19,096

Current year allocation of depreciation (31,912)

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (219,652)

Decrease in investment in joint venture reported in the statement of activities does not provide current financial resources and is not reported as revenue in the governmental funds (102,800)

Principal payments on long-term liabilities are expensed on the fund statements 256,375

**Change in Net Assets of General Fund - Full Accrual Basis** \$ (48,435)



# Township of Keeler

## Notes to Financial Statements March 31, 2006

### Note 3 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall at March 31, 2005		\$	(5,052)
Current year building permit revenue			54,921
Related expenses:			
Direct costs	\$	52,141	
Estimated indirect costs		<u>9,774</u>	<u>61,915</u>
Cumulative shortfall - March 31, 2006		\$	<u>(12,046)</u>

### Note 4 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, and the remainder of State statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

# Township of Keeler

## Notes to Financial Statements March 31, 2006

### Note 4 - Deposits and Investments (Continued)

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$728,549 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 5 - Capital Assets

Capital asset activity of the Township's governmental activities was as follows:

	Balance March 31, 2005	Additions	Disposals and Adjustments	Balance March 31, 2006
<b>Governmental activities</b>				
Capital assets not being depreciated -				
Land	\$ 27,889	\$ -	\$ -	\$ 27,889
Capital assets being depreciated:				
Land improvements	57,139	-	-	57,139
Buildings and improvements	98,231	-	-	98,231
Vehicles and equipment	410,215	19,096	-	429,311
Subtotal	565,585	19,096	-	584,681
Accumulated depreciation:				
Land improvements	52,136	428	-	52,564
Buildings and improvements	50,887	2,097	-	52,984
Vehicles and equipment	267,845	29,387	-	297,232
Subtotal	370,868	31,912	-	402,780
Net capital assets being depreciated	194,717	(12,816)	-	181,901
Net capital assets	<u>\$ 222,606</u>	<u>\$ (12,816)</u>	<u>\$ -</u>	<u>\$ 209,790</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 8,824
Public safety	23,088
Total governmental activities	<u>\$ 31,912</u>

# Township of Keeler

## Notes to Financial Statements March 31, 2006

### Note 6 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	<u>\$ 3,438,276</u>	<u>\$ -</u>

### Note 7 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	<u>Interest Rate Ranges</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities - Sister Lakes Area Utilities Authority	4%-6%	12/31/2021	<u>\$ 4,102,000</u>	<u>\$ (256,375)</u>	<u>\$ 3,845,625</u>	<u>\$ 256,375</u>

The Sister Lakes Area Utilities Authority bonds represent financing of sewer improvements by the Sister Lakes Area Utilities Authority (the "Authority") that benefit specific districts (see Note 9); these districts are specially assessed, at least in part, for the cost of the improvements. At March 31, 2006, there is \$3,438,276 of special assessments receivable to cover the Township's portion of the debt.

# Township of Keeler

## Notes to Financial Statements March 31, 2006

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds are as follows:

	Governmental Activities		
	Principal	Interest	Total
2007	\$ 256,375	\$ 172,925	\$ 429,300
2008	256,375	162,670	419,045
2009	256,375	152,223	408,598
2010	256,375	141,411	397,786
2011	256,375	130,238	386,613
2012-2016	1,281,875	474,806	1,756,681
2017-2021	1,281,875	160,236	1,442,111
Total	<u>\$ 3,845,625</u>	<u>\$ 1,394,509</u>	<u>\$ 5,240,134</u>

### Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for all of those types of claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### Note 9 - Joint Venture

In September 2000, the Township became a participant with the Township of Silver Creek in a joint venture to acquire, own, improve, enlarge, extend, and operate a water supply system, a sewage disposal system, or a solid waste management system for the residents of these communities. The Sister Lakes Area Utilities Authority was created for that purpose. Upon dissolution of the Authority, the net assets will be split, with approximately 40 percent to the Township of Keeler and 60 percent to Silver Creek Township.

The Sister Lakes Area Utilities Authority is governed by a board of five members consisting of two members each from Keeler and Silver Creek townships and the city manager of the City of Dowagiac (provider of the service).

# **Township of Keeler**

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## **Notes to Financial Statements March 31, 2006**

### **Note 9 - Joint Venture (Continued)**

In May 2001, Van Buren County issued bonds totaling \$11,625,000 for construction of the system. The Township has pledged its full faith and credit for repayment of 41.02 percent of this debt.

Complete financial statements for the Authority can be obtained at the Keeler Township Hall.

## **Required Supplemental Information**

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# Township of Keeler

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Variance
<b>Revenue</b>				
Taxes	\$ 342,912	\$ 404,287	\$ 276,373	\$ (127,914)
Licenses and permits	40,000	51,910	54,921	3,011
State sources	160,000	176,184	176,184	-
Interest	1,000	2,370	17,269	14,899
Other revenue	26,165	160,288	120,578	(39,710)
Total revenue	570,077	795,039	645,325	(149,714)
<b>Expenditures</b>				
General government:				
Township board	121,065	139,878	130,874	(9,004)
Supervisor	44,200	46,930	46,683	(247)
Elections	2,500	3,205	4,492	1,287
Clerk	20,500	20,200	20,200	-
Board of review	1,800	1,037	834	(203)
Treasurer	24,100	22,938	23,912	974
Township hall and grounds	14,000	7,923	7,511	(412)
Total general government	228,165	242,111	234,506	(7,605)
Public safety:				
Fire department	140,100	140,530	142,343	1,813
Police department	80,000	70,540	61,929	(8,611)
Total public safety	220,100	211,070	204,272	(6,798)
Other:				
Cemetery	12,900	9,825	11,325	1,500
Inspections	42,500	102,685	52,141	(50,544)
Street lights	14,237	14,215	14,227	12
Planning commission	10,900	5,926	6,405	479
Zoning board/Zoning board of appeals	1,300	1,656	1,725	69
Road commission	86,806	110,858	96,008	(14,850)
Total other	168,643	245,165	181,831	(63,334)
Total expenditures	616,908	698,346	620,609	(77,737)
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	(46,831)	96,693	24,716	(71,977)
<b>Fund Balance - April 1, 2005</b>	711,317	711,317	711,317	-
<b>Fund Balance - March 31, 2006</b>	<u>\$ 664,486</u>	<u>\$ 808,010</u>	<u>\$ 736,033</u>	<u>\$ (71,977)</u>

# **Township of Keeler**

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## **Note to Required Supplemental Information March 31, 2006**

### **Note - Budgetary Information**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, except that special assessment revenue and the related debt service activity are not budgeted. Since the special assessment and debt service activity is related to Sister Lakes Area Utilities Authority is merely a pass-through and does not relate to the primary operations of the Township, the activity has been reported net on the budget statement. All annual appropriations lapse at fiscal year end.

The annual budget is prepared by the Township supervisor and adopted by the Township board; subsequent amendments are approved by the Township board.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The Township did not have significant expenditure budget variances.



July 12, 2006

To the Members of the Township Board  
Township of Keeler  
Hartford, Michigan 49057

In connection with our audit of the books and records of the Township of Keeler, Hartford, Michigan, for the year ended March 31, 2006, we would like to make the following comments:

### **Old Outstanding Checks**

During our audit testing, we noted several outstanding checks on the general checking bank reconciliation from the years 2001 through 2003. We recommend that the Township consider following up on these checks and making appropriate adjustments.

### **Cash**

We noted that some transfers of cash between a savings account and the checking account in the General Fund were recorded as a revenue or an expenditure on the general ledger. Transfers between cash accounts should always be recorded with a debit to the receiving cash general ledger account and a credit to the cash general ledger account disbursing the money.

We also noted that the transaction activity for the Small Cities Fund (farm account) and the tax collection account is not recorded or summarized in any fashion. We suggest that the treasurer keep a hand-prepared schedule (or electronic spreadsheet) listing deposit and disbursement activity for the year. This was done several years ago and provided a much-needed audit trail.

### **Electronic Transfers**

There was a bill passed and signed on December 31, 2002 (PA 738) that requires all local units of government to approve a resolution authorizing payments of "automated clearing house (ACH) transactions." Beginning immediately, a local unit's governing body must adopt a policy on ACH arrangement that includes all of the following:

- Designation of an individual as the party responsible for payment approval, accounting, reporting and compliance with the ACH policy;
- A statement that this individual is required to submit documentation as follows: describe the goods or services purchased, the cost, date of payment, and the department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and
- The approval of ACH invoices before payment.

July 12, 2006

While the Township may not use electronic transfers at this time, we recommend adoption of the required policy so that it is in place when needed. We have provided the Township with a sample resolution.

### **Budget Amendments**

It is required by the State of Michigan that all governmental entities adopt a budget in compliance with P.A. 621. To comply with this act, the following steps should be taken in the future:

- Budgets must be adopted for the General Fund and the Small Cities Fund.
- The budgets must be balanced, including beginning fund balance (expenditures may exceed revenue as long as there is a beginning fund balance to cover the excess).
- The budgets must be amended when necessary.
- Budget amendment approvals should be recorded in the meeting minutes.
- Public hearings must be held before budget adoptions.
- Expenditures cannot exceed budget appropriations.
- Expenditures must be authorized by a budget before being incurred.
- The format should also include information on actual and estimated actual amounts from the prior two years.
- Transfers between bank accounts within the General Fund should not be budgeted as revenue and expenditures.

### **State-shared Revenue and Budgeting**

The State's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. As with the past several years, revenue-sharing payments on an individual community-by-community basis for fiscal year 2005/2006 will be funded at approximately fiscal year 2004/2005 levels.

The governor's proposed 2006/2007 budget did not include any additional funding for local governments. As a result, it is expected that overall revenue-sharing payments to communities for fiscal year 2006/2007 will remain stagnant at the 2004/2005 level.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state-shared revenue payments. However, for fiscal years 2004/2005, 2005/2006, and 2006/2007, the appropriation in the State's budget for revenue-sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. For those three years, revenue-sharing distributions are planned to be approximately \$1.6 billion less than amounts provided by statutory formulas. There appears to be no long-term solution to the State's structural deficit in its General Fund and, as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

July 12, 2006

State-shared revenue accounts for approximately 17 percent of the Township's total General Fund revenue. The table below details state-shared revenue for the Township over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state-shared revenue experienced by the Township compared to the State's fiscal year 2000:

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Decrease from 2000</u>
2000	\$ 25,935	\$ 158,894	\$ 184,828	\$ -
2001	33,671	168,784	202,455	(17,627)
2002	31,512	170,504	202,016	(17,188)
2003	24,832	173,392	198,224	(13,396)
2004	6,647	171,507	178,154	6,674
2005	611	175,601	176,212	8,616
2006	-	178,523	178,523	6,305

We will continue to update the Township as developments occur. The statutory formula expires in 2007 and requires action by the Legislature.

We sincerely thank you and appreciate the courtesy and cooperation extended to us by you and members of the Township during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

This report is intended solely for the information and use of the Township board.

Sincerely,

**Plante & Moran, PLLC**